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RHEBAAA/DEPT OF ENERGY WASHDC
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SENSITIVE
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C O R R E C T E D C O P Y C A P T I O N

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TAGS: [EAGR](#) [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [EAID](#) [PGOV](#) [PREL](#) [PK](#)
SUBJECT: DECISION NEEDED ON PAKISTAN GSM-102 APPEAL

REFS: A. ISLAMABAD 03691 B. ISLAMABAD 03493 C. ISLAMABAD 03644 D.
ISLAMABAD 03590

¶11. (SBU) Summary. Post requests that a decision be made for a plan under GSM-102 for Pakistan. Two items are delaying Pakistan from purchasing U.S. wheat under the GSM-102 program. First, Post renews its appeal for USDA's speedy approval of the 5 Pakistani banks, originally identified by the Government of Pakistan (GOP) in August, as eligible under the GSM-102 credit program. This we believe will enable Pakistan to immediately access USD 48 million in GSM credits.

Second, Post recommends increasing the amount available to Pakistan in credit guarantees under GSM-102 from USD 48 million to USD 350 million. A decision is needed soon as it takes 45 days to ship wheat from the U.S. to Pakistan. If the answer is "no," please inform us in a front channel cable so we can inform Pakistani authorities. The GOP has undertaken measures to begin importing Russian wheat but would rather import U.S. wheat. Without prompt action, the GOP will not be able to purchase wheat in time to avert a food crisis this winter. Given the fragility of this government and the economic crisis, food insecurity may trigger social unrest. End Summary.

¶12. (SBU) As mentioned in previous cables (reflets A, B, and C), wheat stocks currently held by the GOP are only sufficient to meet domestic consumption needs through January 2009. As a result, Post estimates that Pakistan will experience a wheat shortage during the critical winter months of February and March. The new wheat crop will not be harvested until April/May 2009 leaving the GOP no alternative but to import 1.5 million tons of wheat (approximately USD 350 million). The Ministry of Food, Agriculture and Livestock (MINFAL) is anxious to import American wheat as soon as possible.

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GSM-102
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¶13. (SBU) The GOP had requested access to the USDA GSM-102 program prior to Prime Minister Gilani's visit to Washington in July. Five months have elapsed since this initial request and the situation in Pakistan has continued to deteriorate. Post has identified two issues that need to be addressed with regard to the GSM-102 program in Pakistan: USDA approval of the 5 Pakistani banks and increasing the total exposure guideline from USD 48 million to USD 350 million.

¶14. (SBU) Currently, we believe Pakistan is eligible for USD 48 million in credit guarantees under USDA's total exposure guideline once USDA approves Pakistani banks as eligible for the program

(reftel A). The only obstacle preventing Pakistan from immediately benefitting from the USD 48 million in credit guarantees is the approval of the five Pakistan banks (National Bank of Pakistan, Habib Bank Limited, United Bank Limited, Muslim Commercial Bank Limited, and Allied Bank of Pakistan) listed in the Credit Guarantee Assurance issued by Pakistan in August.

15. (SBU) Post believes that USD 48 million is not a sufficient amount to meet Pakistan's needs. We recommend increasing the amount available to Pakistan to the previously requested total of USD 350 million in credit guarantees which would cover the 1.5 million tons of wheat shortfall. At current market prices, USD 48 million would purchase approximately 206,000 metric tons of wheat, only a fraction of what Pakistan requires to prevent a food shortage.

16. (SBU) Sources at the Ministry of Food, Agriculture, and Livestock report that the GOP is preparing a tender to purchase wheat that would favor Russian red wheat in order to import wheat as quickly as possible. The GOP does not believe that the USG will come through with GSM-102 in time to avert a food crisis and is therefore modifying its tender specifications for 500,000 metric tons of wheat. These new specifications will favor commercial purchases of the cheaper Russian red wheat over the more expensive U.S. white wheat. However, even with this purchase of 500,000 metric tons of Russian red wheat, the GOP will still face a wheat shortfall of 1 million metric tons of wheat. GOP officials want GSM 102 available to meet the balance of their wheat purchase needs with U.S. commercial wheat at an estimate cost of USD 250 million.

17. (SBU) The GSM-102 program would allow American wheat growers to commercially sell their wheat to Pakistan. This is not a food donation. Through the use of the GSM-102 program, the USG can facilitate the supply of a substantial volume of wheat into the region, thereby contributing to price stability and food security in Pakistan and Afghanistan.

18. (SBU) If the answer to Post's request is "no," please inform us in a front channel cable.

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FOOD FOR PROGRESS UPDATE
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19. (SBU) The GOP and AgCouns have finalized the language for the Food for Progress program originally announced in July by President Bush and Prime Minister Gilani. This language has recently received final approval by USDA and the agreement will provide 50,000 tons of donated U.S. wheat to the GOP. The Food for Progress program normally prohibits a country from exporting wheat in the same fiscal year that it receives U.S. wheat donations. In the case of Pakistan, however, USDA has allowed for a modification in the program to bypass its restrictions on commercial wheat sales so that sales are permitted after May 1. Any surplus wheat crop from the April/May 2009 harvest can be exported by the GOP assuming there is a bumper crop. This modification was greatly appreciated by the GOP and the agreement is expected to be signed by the end of this week. Post estimates that 50,000 tons of wheat will supply Pakistan with one and a half days worth of food, or 3 percent of its import needs.

110. (SBU) Comment. Officials from the Ministry of Food and Agriculture, the Ministry of Finance, and the Economic Affairs Division have repeatedly asked the Ambassador, DCM, Economic Counselor, and Agriculture Counselor on numerous occasions for any available update on Washington's decision. We have not been able to provide any response. As the clock has continued to tick, food shortfalls in Pakistan worsen and the fragility of this government increases. Approval of the 5 Pakistani banks as well as the GSM 102 credit for USD 350 million would help assist other USG counterterrorism efforts as, not surprisingly, the areas of Pakistan which are facing the greatest needs for food this winter are the same areas where the USG has concentrated our efforts against extremism. End Comment.

PATTERSON